

Pentwater Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2005

Pentwater Public Schools

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# Pentwater Public Schools

## Management's Discussion and Analysis

Our financial picture remains fiscally sound although our task continues to be challenging. We have responded to declining enrollment and financial uncertainties and still maintain a 24% fund balance. We continue to meet challenges and plan for changes keeping costs within our means while maintaining quality programming and instruction. We, like most schools in the State of Michigan, continue to hope for increased funding support or options from our state government.

### I. FINANCIAL STATEMENTS

**Statement of Net Assets** - Includes all of capital assets less accumulated depreciation and current and non-current liabilities. In comparison with last year, we have less cash and current assets and more non-current assets (capital assets that are not as liquid, eg. bricks and mortar that has been depreciated) Our total assets/net of depreciation decreased by \$541,860. Our total liabilities decreased by \$136,583. Our net assets decreased by \$405,277.

The category Governmental Activities includes all funds. Because the district does not engage in for-profit activities, we do not have any business-type activities reported.

#### Statement of Activities

	2005 Governmental Activities	2004 Governmental Activities	Increase/ Decrease
Functions/Programs			
Program Revenue			
Charges for Services	\$ 74,746	\$ 72,710	\$ 2,036
Operating Grants	317,408	328,846	-11,438
General Revenues			
Property Taxes-General Fund	1,682,328	1,526,111	156,217
Property Taxes-Debt Services	218,008	0	218,008
Grants and Contributions (not restricted to specific programs)	400,686	680,213	-279,527
Unrestricted Investment Earnings	57,606	39,297	18,309
Miscellaneous	50,112	38,112	12,000
Special Item - Gain (loss) on Sale of Asset	-1,600	-1,920	320
TOTAL GENERAL REVENUES AND SPECIAL ITEMS	2,799,294	2,683,369	115,925
Primary Government			
Instruction	1,593,482	1,446,163	147,319
Support Services	1,073,150	950,407	122,743
Community Services	23,530	19,688	3,842
Food Services	101,233	111,520	-10,287
Athletics	86,811	84,321	2,490
Other - MECEP (PreSchool); chargebacks; prior year adjustments	49,683	38,792	10,891
Interest on Long-term debt	163,294	54,410	108,884
Unallocated Depreciation	113,388	129,541	-16,153
TOTAL GOVERNMENTAL ACTIVITIES	3,204,571	2,834,842	369,729
CHANGE IN NET ASSETS	-405,277	-151,473	
Net Assets - beginning	3,464,439	3,615,912	
Net Assets - ending	\$ 3,059,162	\$ 3,464,439	-\$405,277

The Statement of Activities shows the total expenses net of program revenues (after deducting revenue specific to programs such as special education, driver education, early childhood education, at risk, Title I, food service, day care, athletic gate revenues, etc.) Other revenues generated to support those net expenses include property taxes for both general fund and debt service fund, non-restricted state aid, investment earnings, and miscellaneous income. Change in net assets is the difference between this year's expenses and revenues.

Activities in this report are not self-supporting, by and large. While program revenues are applied to the appropriate activities, this report shows that changes in our net assets of governmental activities decreased this year by \$405,277 which is approximately \$253,804 more than last year. This is primarily due to the depreciation and loss of students.

All expenses were up by \$369,729 (13%) while revenues were only up by \$115,925 (4%). This accounts for the additional decrease in net assets over last year of \$253,804.

**Balance Sheet** - This is a report on the worth of our individual funds without inclusion of capital assets and long term debt. The balance sheet divides funds into three categories - General Fund, 2004 Capital Projects Fund, and Other Governmental (scholarships, athletic, food service, debt service).

Fund balances under Other Governmental Funds include both reserved and unreserved balances. Reserved balances are: \$2790 for Food Service Inventories, \$88,005 for Debt Service Fund Balance, \$153,566 for Scholarship Fund Balance. Prior years reserved balances were: \$4,821 for Food Service Inventories, \$113,492 for Debt Service Fund Balances and \$146,228 for scholarships.

**Statement of Revenues, Expenditures and Changes in Fund Balances** - Funds are divided into the same categories as the balance sheet. This report shows the revenue by major source and by function and expenditures by function and by fund category for the year which results in a net change in fund balance.

General Fund had a net decrease in fund balance of \$287,495, compared to \$16,279 last year. This is primarily due to a decrease in state aid membership revenue.

### II. CONDENSED COMPARATIVE DATA

The School District as a whole

Recall that the statement of net assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2005 and 2004.

	2005	2004	
	Governmental	Governmental	Increase/
	Activities	Activities	Decrease
Net Assets			
Assets			
Current and Other Assets	\$ 2,113,254	\$ 5,212,317	
Capital Assets	5,610,188	3,052,985	
TOTAL ASSETS	7,723,442	8,265,302	-\$541,860
Liabilities			
Current Liabilities	479,280	560,863	
Long-term Liabilities	4,185,000	4,240,000	
TOTAL LIABILITIES	4,664,280	4,800,863	-\$136,583
Net Assets			
Invested in Capital Assets - Net of Related Debt	1,451,325	-1,242,015	
Restricted	998,445	3,722,146	
Unrestricted	609,392	984,308	
TOTAL NET ASSETS	\$ 3,059,162	\$ 3,464,439	-\$405,277

**Comparison of original budget to final adopted budget** - The revenue portion of the original budget was projected to be higher than the final adoption. Revenues decreased mainly because of the decrease in enrollment (loss of 15) and the final allocation of state aid with more Schools of Choice students leaving the district than enrolling. Our state revenues were down by \$113,000 while federal revenues were up by \$42,400 (due to Title II funds allocated but not budgeted for expenditures). More kids in day care (increased 25,500) more donations and rent (\$8000 increase), increased revenue from pre-school (\$25,000) negated by corresponding expenses, sale of school property (\$1200 increase),

The expenditure portion of the original was also higher than final adopted budget. When we realized the enrollment was lower, we curtailed ordering and made adjustments throughout the year.

Increases to the original budget were required because:

- Replacement made in special education increased salaries and benefits for more experienced teacher.
- There was an increase in Title I expenditures to use carry over funds by purchasing supplies and textbooks
- Increase because of agreement to purchase of one year of service for superintendent.
- The volume of transportation repairs was higher than normal.
- Day care costs increased, but were compensated by increased revenues.

Decreases made were in the following areas:

- We decreased the original elementary budget when Golden Apple funds were not spent and would be carried over.
- A teacher retirement and replacement decreased salaries and benefits at the Middle School level.
- Dual enrollment fees as budgeted were not utilized because of low participation.
- Reduction of aides assigned played a role in decrease from original budget line item.
- Improvement of instruction and library expenditures were held down to reduce costs to the overall budget.
- Salary raise for principal position and unemployment for prior principal increased that line item.
- Operations and maintenance and technology down with newer equipment and building project.
- Supplies usually ordered during spring were not ordered in 2004 due to construction and were to be included in the 04-05 budget. Regular procedure would be to include 05 spring order, so the budget was higher to cover both years, but expenditures were not actually made in spring 05 because of need to reduce costs.

**Comparison of final budget to actual** - The revenue portion of the final adopted budget was lower than the actual receipts which gave us a positive variance in revenue due to changes in local tax evaluations, increased revenue from day care and state aid. At risk funds and special education funds which are always hard to pin point in original budget were down, transfers in from Mason-Lake Intermediate School District (MLISD) down by \$6000; that figure is always unpredictable with flow through grants, etc. Title I revenue line item increased because we used allocation plus carry over in one year and requested those funds accordingly. Total federal revenue funds were up by \$17,000. Medicaid was up by \$1100, budgeted low as a relatively unknowable variable.

The expenditure portion of the final projection was higher than actual expenditures, generating a positive variance. Approximately \$26,000 increase appeared in pupil services to accommodate accounting requirements, but was compensated by a decrease in compensatory education in an equal amount for that reason. There were cuts in supplies, technology, custodial maintenance in the time period between final and actual budget figures. The final adopted budget at \$320,000 was reduced to the actual figure of \$288,000 by determination that a cost crack down was needed in these areas.

### III. FINANCIAL ANALYSIS OF DISTRICT

Our fund balance went down, but we are still solvent. The reduction in our fund balance was greater than previous years, but the 24% fund balance at June 30, 2005 is healthier than many surrounding districts.

#### **Sources of Revenue**

The general fund balance went down \$ 287,000. Our expenditures exceeded our revenues by that amount. To cut our expenditures further than we did would have been detrimental to our programs and increase the likelihood of decreasing enrollment even further through schools of choice. The spiraling effect of shortage of funds, program cuts, and student enrollment decreases is very problematic.

#### **Capital Assets**

**Increase in net assets was \$2.5 million from June 30, 2004 to June 30, 2005 due to building and renovation project. See footnote D.**

### IV. FUND ANALYSIS

Lunch program and athletics are funded in part by user fees, but are not generally self-supporting. However this year, food service showed a slight profit. Athletics transfers were up to \$76,114 so the total figure for transfers to support services is up from the previous year. We continue to charge rent for use of building and grounds and this summer we instituted summer rentals and catering to bicyclers/campers using volunteer workers to increase profit.

We received an unexpected grant for Rural Schools Development that was used for technology and professional development.

**Expenses** - Overall, in the general fund our expenses increased, as did revenues from the prior year. The increase in revenue was less than in expenses.

#### **Long-term Debt**

The passage of a bond issue in December 2003 means that the District will be responsible for repayment of \$4.25 million with first debt retirement payments due in November, 2004. To support this repayment, the Board levied 1.41 mills on property owners for 2004. Because of careful management of the building improvement project, a residual amount of money in the capital projects fund will be available for transfer to the debt retirement account making it possible to eliminate a levy for the debt in 2005. Interest rates on the capital projects fund have also increased increasing the cash balance.

### V. BUDGET VARIANCES IN GENERAL FUND

(Comparison of final adopted budget to actual expenditures)

#### Revenues

**Local sources** – Up due mainly to changes to local taxable values and increased day care revenue

**State sources** - Down due to unpredictable variations in at risk deferred revenue & MLISD transfers in

**Federal sources** - Up due to amended consolidated application allowing refundable expenditures from Title I allocations and increased Title II revenue

**Other sources** - Unchanged

#### Expenditures

**Instruction** - Down due to relocation of expenditures to comply with accounting requirements for allocated funds

**Support Services** - Up due to relocation of expenditures to comply with accounting requirements for allocated funds.

**Other Financing Uses** - Insignificant changes

#### General Fund Budgetary Highlights

Several factors contributing to changes in the projected general fund budget:

- Enrollment lower than anticipated
- Less maintenance repairs due to building project.
- Supply purchases were limited
- Foundation grant follows the student, and School of Choice students coming into our district generate a lower foundation grant than those who live in our district do. Loss of \$50,000 in state aid adjustments
- Projected fund balance of 19% warned us that with rising costs we would need to reduce costs for future health of district; revenues would not keep up with costs. Final 24% fund balance shows we have worked hard to do so.

Total assets not including capital assets went down including cash, notes and due from other units. Our liabilities went up with the net effect being that our fund balance went down.

However, our fund balance is still healthy at 24% of current expenditures.

### VI. CAPITAL ASSET AND LONG-TERM DEBT

The construction project increased capital assets net of depreciation by 2.557 M. The expenditures made for capital improvement will require long-term debt repayment based on a schedule over approximately 20 years. The improvements should provide reduction in general fund costs due to energy efficiencies and reduction in repairs. They have also enhanced educational environment and made it more conducive to teaching/learning process and student achievement. Because of strict management of the construction project we have funds available and we chose to primarily pay debt.



### **VII. OTHER POTENTIALLY SIGNIFICANT MATTERS**

Families with school-aged children will need to be able to afford housing within our district or at least within an area in which choice of our district is an option. Current housing trends continue to lean toward retirement aged residents.

The master agreement with professional staff for 2004-06 was finalized with an increase in salaries, but staffing/hours for staff has by necessity been reduced. Staff reductions continue to be considered in light of the status of funding from the State of Michigan.

We continue to look for opportunities to cooperate with area schools in providing services to students.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

August 11, 2005

Board of Education  
Pentwater Public Schools  
Pentwater, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pentwater Public Schools (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pentwater Public Schools' management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pentwater Public Schools, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 11, 2005, on our consideration of Pentwater Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BRICKLEY DELONG

Board of Education

August 11, 2005

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The managements' discussion and analysis and budgetary comparison information on pages i through vii and page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Brickley DeLong, PLC*

Pentwater Public Schools  
**STATEMENT OF NET ASSETS**  
June 30, 2005

	Governmental activities
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,718,031
Investments	173,215
Receivables	1,178
Due from other governmental units	136,903
Inventories	2,790
Total current assets	<u>2,032,117</u>
<b>NONCURRENT ASSETS</b>	
Capital assets, net of depreciation	5,610,188
Bond costs, net of amortization	<u>81,137</u>
Total noncurrent assets	<u>5,691,325</u>
Total assets	7,723,442
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	362,377
Deferred revenue	31,903
Bonds payable, due within one year	75,000
Severance pay, due within one year	<u>10,000</u>
Total current liabilities	479,280
<b>NONCURRENT LIABILITIES</b>	
Bonds payable, less amounts due within one year	4,165,000
Severance pay, less amounts due within one year	<u>20,000</u>
Total liabilities	<u>4,664,280</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,451,325
Restricted for:	
Capital Projects	756,874
Debt service	88,005
Permanent funds	153,566
Unrestricted	<u>609,392</u>
Total net assets	<u><u>\$ 3,059,162</u></u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2005

<i><b>Functions/Programs</b></i>	Expenses	Program Revenue		Net (Expenses)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 1,593,482	\$ 1,500	\$ 256,570	\$ (1,335,412)
Support services	1,073,150	-	-	(1,073,150)
Community services	23,530	12,515	9,000	(2,015)
Food services	101,233	50,034	51,838	639
Athletics	86,811	10,697	-	(76,114)
Transfers to other governmental units and other transactions	49,683	-	-	(49,683)
Interest on long-term debt	163,294	-	-	(163,294)
Unallocated depreciation and amortization	113,388	-	-	(113,388)
Total governmental activities	<u>\$ 3,204,571</u>	<u>\$ 74,746</u>	<u>\$ 317,408</u>	(2,812,417)
General revenues				
Taxes				
Property taxes, levied for general purposes				1,682,328
Property taxes, levied for debt service				218,008
Grants and contributions not restricted to specific programs				400,686
Unrestricted investment earnings				57,606
Miscellaneous				50,112
Special item—loss on sale of asset				(1,600)
Total general revenues				<u>2,407,140</u>
Change in net assets				(405,277)
Net assets at July 1, 2004				<u>3,464,439</u>
Net assets at June 30, 2005				<u>\$ 3,059,162</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2005

	General Fund	2004 Capital Projects Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 860,624	\$ 764,015	\$ 93,392	\$ 1,718,031
Investments	9,081	-	164,134	173,215
Receivables	167	-	1,011	1,178
Due from other funds	-	-	13,622	13,622
Due from other governmental units	136,903	-	-	136,903
Inventories	-	-	2,790	2,790
Total assets	<u>\$ 1,006,775</u>	<u>\$ 764,015</u>	<u>\$ 274,949</u>	<u>\$ 2,045,739</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 63,033	\$ 7,141	\$ 10,679	\$ 80,853
Accrued expenses	239,096	-	15,407	254,503
Due to other funds	13,622	-	-	13,622
Deferred revenue	<u>31,903</u>	<u>-</u>	<u>-</u>	<u>31,903</u>
Total liabilities	347,654	7,141	26,086	380,881
Fund balances				
Reserved for:				
Inventories	-	-	2,790	2,790
Debt service	-	-	88,005	88,005
Capital projects	-	756,874	-	756,874
Permanent funds	-	-	153,566	153,566
Unreserved	<u>659,121</u>	<u>-</u>	<u>4,502</u>	<u>663,623</u>
Total fund balances	<u>659,121</u>	<u>756,874</u>	<u>248,863</u>	<u>1,664,858</u>
Total liabilities and fund balances	<u>\$ 1,006,775</u>	<u>\$ 764,015</u>	<u>\$ 274,949</u>	<u>\$ 2,045,739</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2005

Total fund balance—governmental funds	\$	1,664,858
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 7,303,603	
Accumulated depreciation	<u>(1,693,415)</u>	5,610,188

Bond costs are not capitalized and amortized in the governmental funds.

Bond issuance costs and discounts	85,708	
Accumulated amortization	<u>(4,571)</u>	81,137

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds payable		(4,240,000)
Severance payable		(30,000)

Accrued interest in governmental activities is not reported in the governmental funds.		<u>(27,021)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>3,059,162</u></u>
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The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2005

	General Fund	2004 Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 1,682,328	\$ -	\$ 218,008	\$ 1,900,336
Investment earnings	17,550	34,970	5,086	57,606
Food sales and athletic admissions	-	-	59,025	59,025
Other	61,866	-	10,706	72,572
Total local sources	1,761,744	34,970	292,825	2,089,539
State sources	516,705	-	9,248	525,953
Federal sources	140,551	-	42,590	183,141
Total revenues	2,419,000	34,970	344,663	2,798,633
EXPENDITURES				
Instruction	1,513,039	-	-	1,513,039
Support services	1,051,834	-	-	1,051,834
Community services	19,030	-	4,500	23,530
Food services	-	-	101,233	101,233
Athletics	-	-	86,811	86,811
Debt service				
Principal	-	-	55,000	55,000
Interest and other charges	-	-	190,684	190,684
Capital projects	-	2,740,522	-	2,740,522
Total expenditures	2,583,903	2,740,522	438,228	5,762,653
Excess (deficiency) of revenues over expenditures	(164,903)	(2,705,552)	(93,565)	(2,964,020)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	2,261	-	-	2,261
Operating transfers from other funds	-	-	75,170	75,170
Operating transfers to other funds	(75,170)	-	-	(75,170)
Transfers to other governmental units and other transactions	(49,683)	-	-	(49,683)
Total other financing sources (uses)	(122,592)	-	75,170	(47,422)
Net change in fund balances	(287,495)	(2,705,552)	(18,395)	(3,011,442)
Fund balances at July 1, 2004	946,616	3,462,426	267,258	4,676,300
Fund balances at June 30, 2005	\$ 659,121	\$ 756,874	\$ 248,863	\$ 1,664,858

The accompanying notes are an integral part of this statement.



Pentwater Public Schools  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES**  
 For the year ended June 30, 2005

Net change in fund balances—total governmental funds		\$ (3,011,442)
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Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report outlays for capital assets and bond issuance costs as  
expenditures; in the Statement of Activities these costs are depreciated and  
amortized over their estimated useful lives.

Depreciation and amortization expense	\$ (113,388)	
Capital outlay	<u>2,670,873</u>	2,557,485

Governmental funds report the proceeds from the sale of an asset as revenue; the Statement of Activities reports only the gain or loss on the sale of the asset.	(3,710)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Asset.	55,000
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Early retirement obligations are expenses in the Statement of Activities when incurred, but the agreement is not an expenditure in the governmental funds until paid.	(30,000)
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	<u>27,390</u>
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Change in net assets of governmental activities	<u><u>\$ (405,277)</u></u>
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The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF FIDUCIARY NET ASSETS**  
Fiduciary Funds  
June 30, 2005

	Agency Fund
	<u>          </u>
ASSETS	
Cash and cash equivalents	\$   40,865
	<u>          </u>
LIABILITIES	
Deposits held for others	\$   40,865
	<u>          </u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Pentwater Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**1. Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

**2. District-wide and Fund Financial Statements**

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. District-wide and Fund Financial Statements—Continued**

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following **major** governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2004 Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The other non-major governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

**3. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Basis of Presentation—Continued**

**Modified Accrual Method—Continued**

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30, 2005 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**4. Other Accounting Policies**

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Other Accounting Policies—Continued**

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.00
Debt Service Fund—Homestead and non-homestead	1.41

**Inventories**

Food Service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets and Depreciation**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Other Accounting Policies—Continued**

**Capital Assets and Depreciation—Continued**

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	15-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-15 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as unearned revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Other Accounting Policies—Continued**

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The School District does not consider these amendments to be significant.



Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The School District did not have significant expenditure budget variances.

**School Bond Construction Compliance**

The 2004 Capital Projects Fund includes capital project activities funded with bonds dated March 1, 2004 and issued March 10, 2004. For this capital project, the School District has complied with the applicable provisions of §1357(a) of the State of Michigan's school code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the Fund through June 30, 2005.

	<u>2004 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 4,175,538
Expenditures	3,418,664

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2005, the School District had the following investments:

<b>Investment Type</b>	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Standard &amp; Poor's Rating</u>	<u>Percent</u>
MILAF external investment pool	\$ 173,215	<u>1</u>	AAAm	100%
Portfolio weighted average maturity		<u>1</u>		

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. The pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the School District's investments is the same as the value of the pool shares.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—CONTINUED**

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2005, \$1,518,031 of the School District's bank balance of \$1,718,031 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>Capital Assets, not being depreciated:</b>				
Land	\$ 212,191	\$ -	\$ -	\$ 212,191
Construction in progress	<u>656,858</u>	<u>2,654,114</u>	<u>3,310,972</u>	<u>-</u>
Total Capital Assets, not being depreciated	869,049	2,654,114	3,310,972	212,191
<b>Capital Assets, being depreciated:</b>				
Buildings and improvements	3,172,187	3,313,082	-	6,485,269
Furniture and equipment	426,640	14,649	49,142	392,147
Vehicles	<u>213,996</u>	<u>-</u>	<u>-</u>	<u>213,996</u>
Total Capital Assets, being depreciated	3,812,823	3,327,731	49,142	7,091,412
<b>Less Accumulated Depreciation:</b>				
Building and improvements	1,165,241	61,213	-	1,226,454
Furniture and equipment	289,814	36,664	45,432	281,046
Vehicles	<u>173,832</u>	<u>12,083</u>	<u>-</u>	<u>185,915</u>
Total Accumulated Depreciation	<u>1,628,887</u>	<u>109,960</u>	<u>45,432</u>	<u>1,693,415</u>
Total Capital Assets being depreciated, net	<u>2,183,936</u>	<u>3,217,771</u>	<u>3,710</u>	<u>5,397,997</u>
Capital Assets, net	<u>\$ 3,052,985</u>	<u>\$ 5,871,885</u>	<u>\$ 3,314,682</u>	<u>\$ 5,610,188</u>

**Depreciation**

Depreciation expense was charged as unallocated depreciation.

**Construction Commitments**

The School District had an active construction project at year end. At June 30, 2005, the School District's commitments with contractors are as follows:

	<u>Spent to date</u>	<u>Remaining commitment</u>
2004 Bond issue	\$ 3,418,664	\$ 258,700

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE E—BOND COSTS**

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
2004 Bond Costs:				
Issuance	\$ 21,283	\$ -	\$ -	\$ 21,283
Discounts	<u>64,425</u>	<u>-</u>	<u>-</u>	<u>64,425</u>
Total bond costs	85,708	-	-	85,708
Less Accumulated Amortization over 25 years:				
Issuance	284	851	-	1,135
Discounts	<u>859</u>	<u>2,577</u>	<u>-</u>	<u>3,436</u>
Total bond costs, net of amortization	\$ <u>84,565</u>	\$ <u>(3,428)</u>	\$ <u>-</u>	\$ <u>81,137</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Interfund Obligations**

The composition of interfund balances (to fund operations of the Athletic Fund) is as follows:

	<u>Interfund</u> <u>receivables</u>	<u>Interfund</u> <u>payables</u>
General Fund	\$ -	\$ 13,622
Other governmental funds	<u>13,622</u>	<u>-</u>
	\$ <u>13,622</u>	\$ <u>13,622</u>

**Interfund Transfers**

The General Fund transferred \$75,170 to the Athletics Fund to finance fund operations.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE G—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, compensated absences, and termination benefits.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2005:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities:</b>					
Bonds	\$ 4,295,000	\$ -	\$ 55,000	\$ 4,240,000	\$ 75,000
Early retirement obligations	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>10,000</u>
	<u>\$ 4,295,000</u>	<u>\$ 30,000</u>	<u>\$ 55,000</u>	<u>\$ 4,270,000</u>	<u>\$ 85,000</u>

General Obligation Bonds consist of the following:

	<u>Balance</u> <u>June 30, 2005</u>
2004 School Building Site Bonds payable in annual installments ranging from \$75,000 to \$280,000 due May 1, 2006 to 2029; plus interest from 2% to 4.5% payable semi-annually	      \$ 4,240,000

The annual requirements of principal and interest to amortize debt and early retirement obligations outstanding as of June 30, 2005 follows:

<u>Year ending</u> <u>June 30, 2005</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 85,000	\$ 162,128	\$ 247,128
2007	95,000	160,628	255,628
2008	115,000	158,928	273,928
2009	110,000	156,828	266,828
2010	115,000	154,298	269,298
2011-2015	675,000	718,290	1,393,290
2016-2020	875,000	586,638	1,461,638
2021-2025	1,125,000	389,250	1,514,250
2026-2029	<u>1,075,000</u>	<u>122,067</u>	<u>1,197,067</u>
	<u>\$ 4,270,000</u>	<u>\$ 2,609,055</u>	<u>\$ 6,879,055</u>

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE H—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN**

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005, were 14.87 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2005, 2004 and 2003 were approximately \$221,000, \$189,000 and \$189,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE I—COMMITMENTS AND CONTINGENCIES**

**Commitments**

- As of June 30, 2005, the School District had awarded construction contracts totaling approximately \$4,024,950 of which \$3,418,664 of expenses had been incurred. The contracts are the obligations of the 2004 Capital Projects Fund and the School District.

**Contingencies**

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE J—OTHER INFORMATION**

**Economic Dependence**

Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 21 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Pentwater Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISION SCHEDULE**  
General Fund  
For the year ended June 30, 2005

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES				
Local sources	\$ 1,735,451	\$ 1,755,143	\$ 1,761,744	\$ 6,601
State sources	618,488	531,613	516,705	(14,908)
Federal sources	80,132	122,226	140,551	18,325
Other source	1,000	2,260	2,261	1
	<u>2,435,071</u>	<u>2,411,242</u>	<u>2,421,261</u>	<u>10,019</u>
EXPENDITURES				
Instruction				
Elementary	505,793	481,280	479,486	1,794
Middle school	398,072	364,170	368,575	(4,405)
High school	411,341	396,939	389,587	7,352
Special Ed	152,903	158,570	161,169	(2,599)
Compensatory Ed	119,296	137,558	114,222	23,336
	<u>1,587,405</u>	<u>1,538,517</u>	<u>1,513,039</u>	<u>25,478</u>
Support services				
Pupil Service	121,825	114,072	140,771	(26,699)
Instructional improvement	95,883	84,238	83,414	824
School board	89,083	92,008	90,836	1,172
School administration	161,897	170,701	169,775	926
School administration/principal	127,127	141,101	139,956	1,145
Business and finance	67,577	64,413	62,417	1,996
Custodial and maintenance	281,026	268,364	256,432	11,932
Transportation	81,807	88,544	86,390	2,154
Technology	33,060	24,500	21,842	2,658
Childcare	15,778	19,694	19,031	663
	<u>1,075,063</u>	<u>1,067,635</u>	<u>1,070,864</u>	<u>(3,229)</u>
Other financing uses				
Payments to other schools	3,570	2,500	-	2,500
Payments to other governmental entities	22,920	44,900	47,401	(2,501)
Interfund transfers	81,184	75,170	75,170	-
Miscellaneous	510	2,500	2,282	218
	<u>108,184</u>	<u>125,070</u>	<u>124,853</u>	<u>217</u>
Total expenditures	<u>2,770,652</u>	<u>2,731,222</u>	<u>2,708,756</u>	<u>22,466</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(335,581)</u>	\$ <u>(319,980)</u>	(287,495)	\$ <u>32,485</u>
Fund balances at July 1, 2004			<u>946,616</u>	
Fund balances at June 30, 2005			\$ <u>659,121</u>	



## **OTHER DOCUMENTS**

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

August 11, 2005

Board of Directors  
Pentwater Public Schools  
Pentwater, Michigan

We have audited the general purpose financial statements of Pentwater Public Schools as of and for the year ended June 30, 2005 and have issued our report thereon dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### ***Compliance***

As part of obtaining reasonable assurance about whether Pentwater Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Pentwater Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Pentwater Public Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition has been reported to the management of Pentwater Public Schools in a separate letter dated August 11, 2005.

Board of Directors

August 11, 2005

Page 2

***Internal Control Over Financial Reporting—Continued***

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley DeLong, PLC*

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 11, 2005

Board of Education  
Pentwater Public Schools  
Pentwater, Michigan

In planning and performing our audit of the general purpose financial statements of Pentwater Public Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Pentwater Public Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the general purpose financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## REPORTABLE CONDITION

### *Segregation of Duties*

Recommendation 1: Accounting and bookkeeping responsibilities should be further segregated.

During our review of internal controls and tests of transactions, we noted that the Business Manager maintains numerous responsibilities and activities among the cash receipts, cash disbursements, payroll, and general ledger functions. The maintenance of these responsibilities and activities by one individual provides the opportunity for errors and misappropriations of funds to go undetected.

The implementation of an array of segregated duties, including appropriate review and approval procedures by the administration and supervisory personnel, could reduce the opportunity for errors and misappropriations of funds to go undetected.